

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**COMPREHENSIVENESS OF THE FY 1996 OTHER
DEFENSE ORGANIZATIONS FINANCIAL STATEMENTS**

Report No. 98-027

November 28, 1997

Department of Defense

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Acronyms

CFO
DFAS

Chief Financial Officer
Defense Finance and Accounting Service



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**



November 28, 1997

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

**SUBJECT: Audit Report on Comprehensiveness of the FY 1996 Other Defense
Organizations Financial Statements (Report No. 98-027)**

We are providing this audit report for review and comment. This audit was performed in response to the Chief Financial Officers Act of 1990 as amended by the Federal Financial Management Act of 1994.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Because the Defense Finance and Accounting Service did not comment on the draft of this report, we request that it provide comments on this final report by January 9, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson, Audit Program Director, at (703) 604-9582 (DSN 664-9582) or Mr. Marvin L. Peek, Audit Project Manager, at (703) 604-9587 (DSN 664-9587). See Appendix D for the report distribution. Audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 98-027
(Project No. 7RF-2009.01)

November 28, 1997

Comprehensiveness of the FY 1996 Other Defense Organizations Financial Statements

Executive Summary

Introduction. This report is the second of three reports on an audit of the compilation of the FY 1996 "Other Defense Organizations" financial statements at the Defense Finance and Accounting Service Indianapolis Center. The audit was performed in response to the requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. The Federal Financial Management Act of 1994 requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. Beginning in FY 1996, the Defense Finance and Accounting Service Indianapolis Center became responsible for preparing the financial statements for the "Other Defense Organizations." "Other Defense Organizations" represents a consolidation of financial data from various Defense agencies (to include the Military Departments) using Department of Treasury Index 97 (Department 97). The Office of the Secretary of Defense has responsibility for Department 97 appropriations, funds, and accounts. During FY 1996, 35 Defense organizations and funds, included in "Other Defense Organizations," were appropriated \$39 billion, and their financial statements showed total assets of \$45.7 billion, liabilities of \$2.7 billion, and a net position of \$43 billion.

Audit Objectives. The primary audit objective was to determine whether the Defense Finance and Accounting Service Indianapolis Center consistently and accurately compiled financial data received from field accounting organizations and other sources for the financial statements of "Other Defense Organizations." Specifically, we evaluated whether the Defense Finance and Accounting Service Indianapolis Center included all of the required appropriation accounts in the FY 1996 "Other Defense Organizations" financial statements. In addition, we evaluated internal controls and compliance with laws and regulations, as they related to our audit objectives. A subsequent report will discuss other issues on the preparation of the financial statements for "Other Defense Organizations."

Audit Results. The FY 1996 financial data prepared by the Defense Finance and Accounting Service Indianapolis Center for the "Other Defense Organizations" financial statements was not comprehensive and complete. Specifically, the Defense Finance and Accounting Service Indianapolis Center excluded from the FY 1996 "Other Defense Organizations" financial statements:

- o either part or all of 11 appropriation accounts that included \$500.9 million in net assets and \$27.8 million in net negative liabilities that were reopened by the Department of the Treasury,
- o certain canceled and merged appropriation accounts totaling \$1.1 billion that could not be closed because of negative balances, and
- o portions of 14 open appropriation accounts.

As a result, amounts reflected for the following six lines on the FY 1996 Statement of Financial Position for "Other Defense Organizations" were inaccurate: Fund Balance With Treasury, Accounts Receivable, Advances and Prepayments, Accounts Payable, Unearned Revenue, and Unexpended Appropriations.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center:

- o report the total operations in the financial statements for "Other Defense Organizations" as reflected in the fiscal yearend consolidated certified "Report(s) on Budget Execution."

- o correct the computer program errors so that the total operations of the "Other Defense Organizations" will be included,

- o make appropriate adjustments to the beginning balances of accounts for the FY 1997 Statement of Financial Position, and

- o determine the staffing requirements needed to successfully compile the financial statements for "Other Defense Organizations."

Management Comments. The Defense Finance and Accounting Service did not comment on a draft of this report. Therefore, we request that the Defense Finance and Accounting Service provide comments on this final report by January 9, 1998.

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Part I - Audit Results

Audit Background

Chief Financial Officers Act. Public Law 101-576, the "Chief Financial Officers (CFO) Act of 1990," as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," requires the annual preparation and audit of financial statements for trust funds, revolving funds, and commercial activities. The CFO Act also requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year.

Office of Management and Budget Policy. The Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, defines the form and content of financial statements of executive departments and agencies, as required by the CFO Act. Also, the Office of Management and Budget guidance states that the purpose of the financial statements is to present the financial position and the results of operations as required by the CFO Act. Executive departments and agencies are expected to continue preparing financial reports that are used to monitor and control obligations and expenditures of budgetary resources. Agencies should conform their financial statements to the prescribed form and content unless the particular operations or organization of the agency or the program to be reported on warrant a variance. Modifications that result in noncompliance with the reporting and disclosure requirements contained in the Statements of Federal Financial Accounting Standards are not permitted. Agencies should seek Office of Management and Budget approval for any significant modifications.

The FY 1996 Financial Statements for "Other Defense Organizations." The consolidating DoD financial statements for FY 1996 include financial information for a reporting entity entitled "Other Defense Organizations." This entity includes the financial information for various Defense organizations that received Department 97 general fund appropriations, and certain small revolving funds, trust funds, and other small special funds. In FY 1996, 35 Defense organizations and funds were appropriated \$39 billion of Department 97 funds for the performance of their missions and functions. The FY 1996 financial statements for "Other Defense Organizations" showed total assets of \$45.7 billion, liabilities of \$2.7 billion, and a net position of \$43 billion. Beginning in FY 1996, the Defense Finance and Accounting Service (DFAS) Indianapolis Center is responsible for preparing financial statements for "Other Defense Organizations."

Audit Objectives

The primary audit objective was to determine whether DFAS Indianapolis Center consistently and accurately compiled financial data received from field accounting organizations and other sources for the financial statements of "Other Defense Organizations." Specifically, we evaluated whether the DFAS Indianapolis Center included all of the required appropriation accounts in the

“Other Defense Organizations” financial statements. In addition, we evaluated internal controls and compliance with laws and regulations, as they related to our audit objectives. A subsequent report will discuss other issues on the preparation of the financial statements. Appendix A discusses the audit scope and methodology and the review of the internal control program.

Accuracy of Financial Information Reported in the FY 1996 Financial Statements for "Other Defense Organizations"

The FY 1996 "Other Defense Organizations" financial statements were not comprehensive and complete. Specifically, DFAS Indianapolis Center excluded from the FY 1996 "Other Defense Organizations" financial statements:

- either part or all of 11 appropriation accounts, that included \$500.9 million in net assets and \$27.8 million in net negative liabilities, that were reopened by the Department of the Treasury,
- certain canceled and merged appropriation accounts totaling \$1.1 billion that could not be closed because of negative balances, and
- portions of 14 open appropriation accounts.

These conditions occurred because DFAS Indianapolis Center misinterpreted the Office of Management and Budget and DoD guidance which requires that financial statements report the total operations of the reporting entity. Additionally, DFAS Indianapolis Center erroneously programmed the computer application and did not fully analyze the results of the computer application used to extract financial information from the yearend consolidated certified "Report(s) on Budget Execution." As a result, amounts reflected on the Statement of Financial Position for "Other Defense Organizations" are inaccurate for the following six lines: Fund Balance With Treasury, Accounts Receivable, Advances and Prepayments, Accounts Payable, Unearned Revenue, and Unexpended Appropriations.

Background

DoD Policy. The DoD "Guidance on Form and Content of Financial Statements for FY 1996 Financial Activity," (DoD Form and Content Guidance) October 1996, provides guidance to prepare and present FY 1996 financial statements under the authority of the CFO Act and the Office of Management and Budget Bulletin 94-01. According to the guidance, the financial statements and underlying financial systems shall include the total operations of the reporting DoD entity. We reviewed the DoD Form and Content Guidance with the Office of the Secretary of Defense, Comptroller (Accounting Policy), and determined that financial reporting should reflect total operations, and should be consistent between the financial statements and the yearend consolidated certified "Report(s) on Budget Execution." Accordingly,

Accuracy of Financial Information Reported in the FY 1996 Financial Statements for "Other Defense Organizations"

the reopened appropriation accounts and appropriation accounts with negative balances that were reported in the yearend consolidated certified "Report(s) on Budget Execution" should also be reported in the financial statements.

Clarifying Guidance. Inspector General, DoD, Report No. 97-215, "Reporting of Accounts Payable for the National Guard and Reserve Equipment Appropriation on the 'Other Defense Organizations' Portion of the FY 1996 Financial Statements," September 18, 1997, states that the portion of the DoD Form and Content Guidance addressing Liabilities Not Covered by Budgetary Resources was not clear with regard to closed year appropriations. Accordingly, the report recommended that the Under Secretary of Defense (Comptroller) revise the DoD Form and Content Guidance to specify the accounting treatment of accounts payable for closed appropriations. We discussed this condition with DFAS Indianapolis Center officials and they agreed with the need for clarifying guidance.

Reopened Appropriation Accounts and Appropriation Accounts with Negative Balances

The DFAS Indianapolis Center excluded from the financial statements for "Other Defense Organizations" \$500.9 million in net assets and \$27.8 million in negative liabilities from reopened appropriation accounts and \$1.1 billion from appropriations accounts with negative balances that could not be closed. All the excluded amounts were shown in the consolidated "Report(s) on Budget Execution" for FY 1996. Appendix B (Tables B-1 and B-2) lists those appropriation accounts and amounts excluded from the FY 1996 Statement of Financial Position for "Other Defense Organizations."

Reopened Appropriation Accounts. Reopened appropriation accounts are accounts the Department of the Treasury have reopened to make additional corrections or adjustments. During FY 1996, the Department of the Treasury reopened portions of 11 Department 97 Defense agency appropriation accounts to adjust additional disbursements. We reviewed the "Other Defense Organizations" Statement of Financial Position and the yearend consolidated certified "Report(s) on Budget Execution" for eight lines on the Statement of Financial Position. The DFAS Indianapolis Center omitted the following amounts for three general ledger accounts listed in the Statement of Financial Position because the reopened appropriation accounts were not included as required:

Fund Balance With Treasury	\$501.9 million
Accounts Receivable	\$ (1.0) million
Accounts Payable	\$(27.8) million

Appropriation Accounts with Negative Balances. The DFAS Indianapolis Center also omitted from the Statement of Financial Position for "Other

Accuracy of Financial Information Reported in the FY 1996 Financial Statements for "Other Defense Organizations"

Defense Organizations" \$1.1 billion associated with canceled and merged appropriation accounts that cannot be closed because the appropriations had negative balances.

The \$1.1 billion represents the gross amounts omitted from the following five lines on the Statement of Financial Position, and includes both positive and negative balances.

Fund Balance With Treasury	\$(193.0) million
Accounts Receivable	\$15.9 million
Accounts Payable	\$(813.6) million
Unearned Revenue	\$(0.1) million
Unexpended Appropriations ¹	\$72.8 million

Appropriation accounts that have negative balances cannot be closed unless the Defense agencies are able to bring the negative balances to a positive or zero balance. Department of the Treasury Bulletin No. 96-03, "Yearend Closing," July 17, 1996, states that in order to withdraw an appropriation account, agencies are required to bring all undisbursed appropriation account ledgers with negative balances to a positive or zero balance prior to yearend closing. Accordingly, the appropriation account with a negative balance at the yearend closing must continue to be reported in "Report(s) on Budget Execution."

Interpreting Office of Management and Budget and DoD Form and Content Guidance. The DFAS Indianapolis Center accounting officials mistakenly excluded the appropriation accounts that were reopened by the Department of the Treasury and appropriation accounts with negative balances that had not been closed. Guidance promulgated by the Office of Management and Budget, and the Office of the Under Secretary of the Defense (Comptroller) for the form and content of financial statements requires that the financial statements include the total operations of the reporting DoD entity. Accordingly, the assets, liabilities, and net position accounts associated with the reopened appropriation accounts, and the canceled and merged accounts that have not been closed, should continue to be reflected in the financial statements as long as those accounts are reflected in the certified "Report(s) on Budget Execution."

Exclusion of Open Appropriations Accounts

Besides excluding the reopened appropriation accounts and appropriations with negative balances from the FY 1996 financial statements for "Other Defense Organizations," DFAS Indianapolis Center also mistakenly excluded portions of

¹Unexpended appropriations are included under the Net Position heading on the Statement of Financial Position. Unexpended appropriations include the portion of an entity's appropriations represented by unobligated balances and undelivered orders.

Accuracy of Financial Information Reported in the FY 1996 Financial Statements for "Other Defense Organizations"

14 open appropriation accounts because of the computer programming errors. During the reconciliation process, DFAS Indianapolis Center accounting personnel realized that the computer program had erroneously deleted certain open appropriation accounts. The DFAS Indianapolis Center accounting personnel made numerous adjustments to the financial statements in an attempt to correct the errors, but were unable to detect all of the errors. Therefore, additional adjustments were needed to ensure that all open appropriation accounts were included in the financial statements. Details on the affected appropriation accounts and lines on the Statement of Financial Position are in Table B-3 of Appendix B. Details on the reconciliation process are in Appendix C.

Programming Errors. The DFAS Indianapolis Center did not completely analyze and program the computer application to include all of the appropriation accounts included in the "Report(s) on Budget Execution." The automated program extracted only open appropriation accounts reported in the "Report(s) on Budget Execution." However, the automated program incorrectly excluded the reopened accounts and accounts with negative balances. In addition, the automated program did not extract portions of 14 open appropriation accounts that were still open for disbursements against obligations as reported in the fiscal yearend 1996 consolidated certified "Report(s) on Budget Execution."

Exclusions Caused by Computer Errors. As of September 30, 1996, DFAS Indianapolis Center reported the X², 1996, 1995, 1994, 1993, 1992, 1992/1993, 1991, 1991/1993, 1990, 1989, and M³ years for 0100, Operation and Maintenance appropriation, in the fiscal yearend 1996 consolidated certified "Report(s) on Budget Execution." Operation and Maintenance appropriations normally expire after 1 year unless they are obligated. After Operation and Maintenance funds are obligated, the fund holder has an additional 5 years to disburse the funds. For other appropriation accounts, the fund holder has 2, 3, 4, or 5 years to obligate the funds and an additional 5 years to disburse the funds. As part of the compilation process for the "Other Defense Organizations" financial statements, DFAS Indianapolis Center used an automated program to delete all canceled years for the Operation and Maintenance appropriation. According to DFAS Indianapolis Center yearend instructions, the program should delete only 4 of the 12 years for the above appropriation accounts. However, the application incorrectly deleted 3 additional years that were still opened. Accordingly, appropriations funded in FYs 1992/1993, 1991/1993, and X were mistakenly deleted by the computer application. Table 1 shows the amounts of open appropriation accounts

²The X year appropriation account is budget authority that remains available for obligations for an indefinite period of time.

³The Merged "M" appropriation account is the successor account into which obligated balances under an appropriation are merged at the end of the second full fiscal year following expiration. The "M" appropriation account remains available for payment of obligations and liabilities incurred by accounts that have merged. Because of Public Law 101-510, the "M" appropriation account was canceled in its entirety as of September 30, 1993.

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excluded from the FY 1996 Statement of Financial Position for "Other Defense Organizations" because of the computer programming errors and the corrections made by DFAS Indianapolis Center.

**Table 1. Open Appropriation Accounts Excluded From the Statement of
Financial Position Because of Computer Programming Errors**
(\$ in thousands)

<u>Standard Line Items</u>	<u>Computer Program Errors</u>	<u>DFAS Adjustments to Correct Program Errors</u>	<u>Balance of Program Errors After DFAS Adjustments</u>
Fund Balance With Treasury	\$2,390,452	\$2,507,631	\$(117,179)
Accounts Receivable	411,583	411,583	0
Advances and Prepayments	4,523	4,265	258
Accounts Payable	111,740	464,359	(352,619)
Unexpended Appropriations	2,691,664	2,456,219	235,445

Review Process. The process for reviewing the computer programs used to extract the financial information from the fiscal yearend 1996 consolidated certified "Report(s) on Budget Execution" was incomplete. If the reviews were more complete, the omission of portions of 14 open appropriation accounts identified in this report may have been detected and corrected by DFAS Indianapolis Center prior to compiling the CFO statements for the "Other Defense Organizations." Accordingly, procedures should be established to ensure that personnel review the logic and the reliability of the program used to generate the financial report requirements. The lack of review reflects a significant lack of resources and stringent deadlines applied and established to compile the "Other Defense Organizations" financial statements. The DFAS Indianapolis Center attempted to incorporate 682 compiled individual adjusted trial balance submissions into the same small organization branch that compiles the Department of the Army financial statements. Without adding additional resources to the branch, DFAS Indianapolis Center also attempted to meet the same dates for the preparation of the complex "Other Defense Organizations" statements as was assigned to the Army financial statements.

Effect of Not Including All Appropriation Accounts in the FY 1996 "Other Defense Organizations" Financial Statements

Because DFAS Indianapolis Center did not fully comply with applicable guidance regarding the preparation and presentation of the financial statements required by the CFO Act, the financial statements prepared for the "Other Defense Organizations" were not comprehensive and complete. Accordingly, the FY 1996 Statement of Financial Position for "Other Defense Organizations" contained material misstatements. Table 2 shows a summary of auditor

Accuracy of Financial Information Reported in the FY 1996 Financial Statements for "Other Defense Organizations"

recommended adjustments to the beginning balances for six line items on the FY 1997 Statement of Financial Position. Table B-3 of Appendix B shows the specific appropriations that make up the totals shown in Table 2.

**Table 2. Summary of Auditor Recommended Adjustments to the
FY 1997 Statement of Financial Position
(\$ in thousands)**

<u>Statement Line Items</u>	<u>Reopened Appropriation Accounts</u>	<u>Appropriation Accounts with Negative Balances</u>	<u>Program Errors After DFAS Adjustments</u>
Fund Balance With Treasury	\$501,883	\$(192,997)	\$(117,179)
Accounts Receivable	(984)	15,860	0
Advances and Prepayments	0	0	258
Accounts Payable	(27,789)	(813,638)	(352,619)
Unearned Revenue	0	(149)	0
Unexpended Appropriations	0	72,799	235,445

Recommendations for Corrective Action

We recommend that the Director, Defense Finance and Accounting Service Indianapolis Center:

1. Incorporate in the preparation procedures for the financial statements the total operations of the "Other Defense Organizations" as reflected in the fiscal yearend consolidated certified "Report(s) on Budget Execution."
2. Correct the computer programming errors to include the total operations of the "Other Defense Organizations" as reflected in the fiscal yearend consolidated certified "Report(s) on Budget Execution."
3. Review the auditor recommended adjustments, as reflected in Table 2, to the FY 1997 beginning balance of the following line items on the Statement of Financial Position: Fund Balance With Treasury, Accounts Receivable, Advances and Prepayments, Accounts Payable, Unearned Revenue, and Unexpended Appropriations; make all appropriate adjustments.
4. Review and determine the staffing requirements necessary to successfully compile the financial statements for "Other Defense Organizations" for FY 1997 and successive years.

**Accuracy of Financial Information Reported in the FY 1996 Financial Statements
for "Other Defense Organizations"**

Management Comments

A draft of this report was issued on August 14, 1997. No management comments were received. We request that the Defense Finance and Accounting Service Indianapolis Center comment on this final report by January 9, 1998.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the fiscal yearend 1996 consolidated certified "Report(s) on Budget Execution" and the CFO annual financial statements for the "Other Defense Organizations." We also reviewed the process DFAS Indianapolis Center used to reconcile the Defense agencies' adjusted trial balances. As of September 30, 1996, the financial statements for "Other Defense Organizations" showed total assets of \$45.7 billion, total liabilities of \$2.7 billion, and net position of \$43 billion. Our audit concentrated on the rationale that DFAS Indianapolis Center used to exclude the canceled and merged appropriation accounts and the dollar amounts associated with those appropriation accounts. In addition, we evaluated the computer program used to extract the financial information from the fiscal yearend 1996 consolidated certified "Report(s) on Budget Execution." Further, we used the fiscal yearend consolidated certified "Report(s) on Budget Execution" that the DFAS Indianapolis Center prepared to calculate the dollar amount of Fund Balance With Treasury, Accounts Receivable, Advances and Prepayments, Accounts Payable, Unearned Revenue, Unexpended Appropriations, Revenue, and Cost of Goods Sold for the open appropriation accounts, reopened appropriation accounts, and appropriation accounts with negative balances that were excluded from the financial statements for "Other Defense Organizations."

Use of Computer-Processed Data. We used computer-processed data. However, we did not confirm the reliability of the data because the accounting systems in DoD that support the financial statements for "Other Defense Organizations" have significant limitations. The lack of reliable financial information is recognized as a material management control deficiency in the DoD FY 1996 Annual Statement of Assurance and was further confirmed in Inspector General, DoD, Report No. 97-155, "Internal Controls and Compliance with Laws and Regulations for the FY 1996 Financial Statements of the 'Other Defense Organizations' Receiving Department 97 Appropriations," June 11, 1997.

Audit Type, Dates, and Standards. We performed this financial-related audit from December 2, 1996, through June 19, 1997, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls considered necessary.

Contacts During the Audit. We visited or contacted individuals within DoD. Further details are available upon request.

Internal Control Program

DoD Directive 5010.38, "Management Control Program," and DoD Instruction 5010.40, "Management Control Program Procedures," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Internal Control Program. We reviewed the adequacy of the DFAS Indianapolis Center internal control program over the process that DFAS Indianapolis Center used to prepare the financial statements for the "Other Defense Organizations." Specifically, we examined the process DFAS Indianapolis Center used to report Fund Balance With Treasury, Accounts Receivable, Advances and Prepayments, Accounts Payable, Unearned Revenue, Unexpended Appropriations, Revenue, and Cost of Goods Sold from the fiscal yearend consolidated certified "Report(s) on Budget Execution" to the adjusted trial balance that support the financial statements for "Other Defense Organizations."

Adequacy of Internal Controls. We identified material internal control weaknesses, as defined by DoD Directive 5010.38 and DoD Instruction 5010.40, at DFAS Indianapolis Center. The DFAS Indianapolis Center internal controls for departmental financial reporting were not adequate to ensure that all necessary financial information for the open, canceled, and merged appropriation accounts were properly reported in the FY 1996 financial statements for "Other Defense Organizations." Also, internal controls did not ensure that the financial information generated by the computer program was complete and fully supported. The recommendations, if implemented, will correct the deficiencies. A copy of the report will be provided to the senior DFAS official responsible for internal controls.

Adequacy of Management's Self-Evaluation. Management's self-evaluation did not detect and report the internal control weaknesses identified in this report because DFAS Indianapolis Center did not specifically consider the process of reporting the open, canceled, and merged appropriation accounts to the "Other Defense Organizations" financial statements as an assessable unit in its management control plan; therefore, did not identify the material weaknesses identified by the audit.

Summary of Prior Coverage

The Office of the Inspector General, DoD, issued one report in FY 1997 that relates to the process of reporting appropriation accounts from "Report(s) on Budget Execution" to the financial statements.

Inspector General, DoD, Report No. 97-215, "Reporting of Accounts Payable for the National Guard and Reserve Equipment Appropriation on the 'Other Defense Organizations' Portion of the FY 1996 Financial Statements," September 18, 1997. The report states that the DFAS Denver Center correctly reported account payable for open and closed appropriations. The DFAS Cleveland and Indianapolis Centers did not report accounts payable remaining on closed appropriations for the National Guard and Reserve Equipment Appropriation. As a result, accounts payable for the National Guard and Reserve Equipment Appropriation are understated by \$12.8 million on the "Other Defense Organizations" portion of the FY 1996 DoD financial statements. The report recommended that the Under Secretary of Defense (Comptroller) revise the DoD "Guidance on Form and Content of Financial Statements for FY 1997 Financial Activity" to specify the reporting requirements of accounts payable for closed appropriations. As of November 19, 1997, the Under Secretary of Defense (Comptroller) had not responded to the report.

Appendix B. Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for "Other Defense Organizations"

Appendix B includes the following three tables showing amounts excluded from the Statement of Financial Position for "Other Defense Organizations."

- o Table B-1. Reopened Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for "Other Defense Organizations"
- o Table B-2. Canceled and Merged Appropriation Accounts With Negative Balances Excluded From the FY 1996 Statement of Financial Position for "Other Defense Organizations"
- o Table B-3. Open Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for "Other Defense Organizations" Because of Computer Programming Errors

Table B-1 Explanation. During FY 1996, the Department of the Treasury reopened portions of 11 appropriation accounts to adjust additional disbursements. The DFAS Indianapolis Center included portions of 11 appropriation accounts in the September 30, 1996, "Report(s) on Budget Execution," but did not include those appropriation accounts in the Statement of Financial Position. As a result, the amounts for portions of 11 reopened appropriation accounts were omitted in the 3 lines on the Statement of Financial Position.

Table B-1. Reopened Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for "Other Defense Organizations"

<u>Appropriation Account Number and Title</u>	<u>Appropri- ation FY</u>	<u>Fund Balance With Treasury</u>	<u>Accounts Receivable¹</u>	<u>Accounts Payable¹</u>
0100, Operation and Maintenance Subtotal	1990/1990 1989/1989	\$102,425,331 33,199,699 135,625,030	\$30,247 (1,014,077) (983,830)	\$67,778,418 (91,459,648) (23,681,230)
0102, Defense Claims	M ²	500,921	0	301,745
0107, Office of the Inspector General	1990/1990	13,208,964	0	1,520
0300, Defense Procurement Subtotal	1987/1989 M ²	25,157,973 34,599,158 59,757,131	0 0 0	(1,552,802) (15,251,465) (16,804,267)
0350, National Guard and Reserve Equipment Subtotal	1988/1990 1987/1989 M ²	28,064,770 12,571,094 71,077,954 111,713,818	0 0 0 0	3,040,735 12,571,094 17,713,408 33,325,237
0360, Defense Production Act Purchases Subtotal	1987/1989 M ²	680,477 7,408,140 8,088,617	0 0 0	(1,148,802) 7,408,042 6,259,240

Appendix B. Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for "Other Defense Organizations"

Table B-1. Reopened Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for "Other Defense Organizations" (cont'd)

<u>Appropriation Account Number and Title</u>	<u>Appropri- ation FY</u>	<u>Fund Balance With Treasury</u>	<u>Accounts Receivable¹</u>	<u>Accounts Payable¹</u>
0400, Research, Development, Test and Evaluation	1988/1989	104,393,285	0	(21,608,061)
0450, Development, Test and Evaluation	1989/1990	11,560,848	0	5,817,887
	1988/1989	3,624,070	0	3,642,070
	M ²	8,570,024	0	(17,296,342)
Subtotal		23,754,942	0	(7,836,385)
0460, Operational Test and Evaluation	1989/1990	41,647,829	0	(1,565,193)
0500, Military Construction	1986/1990	3,115,040	0	688,008
0706, Family Housing	1986/1990	77,220	0	0
Total		\$501,882,797	\$(983,830)	(\$27,789,000)

¹All accounts normally have a positive balance. Amounts shown in parentheses indicate an abnormal (negative) balance.

²The merged "M" appropriation account is the successor account into which obligated balances under an appropriation are merged at the end of the second full fiscal year following expiration. The "M" appropriation account remains available for payment of obligations and liabilities incurred by accounts that have merged. Because of Public Law 101-510, the "M" appropriation account was canceled in its entirety as of September 30, 1993.

Table B-2 Explanation. The DFAS Indianapolis Center excluded three canceled and merged appropriation accounts (0100, Operation and Maintenance; 0300, Defense Procurement; and 0400, Research, Development, Test and Evaluation) from the Statement of Financial Position. The three appropriation accounts had negative balances and could not be closed in fiscal yearend 1996 and were included in the consolidated certified "Report(s) on Budget Execution." As a result, the amounts for the three appropriation accounts were omitted from five lines in the Statement of Financial Position.

**Appendix B. Appropriation Accounts Excluded From the FY 1996 Statement of
Financial Position for "Other Defense Organizations"**

**Table B-2. Canceled and Merged Appropriation Accounts With Negative Balances Excluded
from the FY 1996 Statement of Financial Position for "Other Defense Organizations"**

<u>Appropriation Account Number and Title</u>	<u>Appropri- ation FY</u>	<u>Fund Balance * With Treasury</u>	<u>Accounts Receivable</u>	<u>Accounts * Payable</u>	<u>Unearned Revenue</u>	<u>Unexpended Appropriations</u>
0100, Operation and Maintenance	M	\$(27,827,203)	\$1,704,498	\$(267,447,217)	\$0	\$32,066,953
0300, Defense Procurement	1988/1990	(15,890,304)	8,536,578	(23,165,574)	149,110	760,939
0400, Research, Development, Test and Evaluation	1989/1990 1987/1988 M	(24,383,111) (31,107,230) (93,789,022)	3,169,575 573,922 1,875,700	(179,909,952) (85,939,874) (257,175,144)	0 0 0	25,872,042 3,169,621 10,929,598
Subtotal		(149,279,363)	5,619,197	(523,024,970)	0	39,971,261
Total		\$(192,996,870)	\$15,860,273	\$(813,637,761)	\$149,110	\$72,799,153

* All accounts normally have positive balances. Any amounts in parentheses indicate an abnormal (negative) balance.

**Appendix B. Appropriation Accounts Excluded From the FY 1996 Statement of
Financial Position for "Other Defense Organizations"**

Table B-3 Explanation. The computer application used to extract financial information from the fiscal yearend 1996 consolidated certified "Report(s) on Budget Execution" erroneously excluded portions of 14 open appropriation accounts in the statement of financial position. During the reconciliation process, DFAS Indianapolis Center personnel corrected portions of 4 of the 14 open appropriation accounts. However, adjustments were still needed for the remaining portions of the 10 open appropriation accounts. Those adjustments affect five line items on the Statement of Financial Position as shown in Table B-3.

**Appendix B. Appropriation Accounts Excluded From the FY 1996 Statement of
Financial Position for "Other Defense Organizations"**

**Table B-3. Open Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for
Other Defense Organizations Because of Computer Programming Errors**

<u>Appropriation No. and Title</u>	<u>Appropri- ation FY</u>	<u>Cancel- lation Date</u>	<u>Fund Balance With Treasury¹</u>	<u>Accounts Receivable¹</u>	<u>Advances and Prepayments</u>	<u>Accounts Payable¹</u>	<u>Unexpended Appropriations</u>
0100, Operation and Maintenance	1992/1993	09/30/98	\$83,886,086	0	0	\$71,690,696	\$12,195,391
	1991/1993	09/30/98	50,000,000	0	0	50,000,000	0
	X ²	indefinite	(158,418)	(730)	0	(389,149)	230,000
Subtotal			133,727,668	(730)	0	121,301,547	12,425,391
0103, Base Closure	All	09/30/95	364,983,662	698	253,531	17,730,283	344,722,607
0107, Office of the Inspector General	1996/1998	09/30/03	999,378	0	0	30,759	968,619
	1995/1997	09/30/02	56,370	0	0	(450,880)	507,250
	1994/1996	09/30/01	171,195	0	0	(125,724)	296,919
	1993/1995	09/30/00	68,654	0	0	(411,749)	480,403
	1992/1994	09/30/99	73,833	0	0	71,415	2,417
	1991/1993	09/30/98	281,006	0	0	144,098	136,908
	1990/1992	09/30/97	202,029	0	0	79,754	122,275
Subtotal			1,852,465	0	0	(662,327)	2,514,791
0116, Summer Olympics	1996/1997	09/30/02	20,615,809	0	68,858	4,097,128	16,587,539
Subtotal			20,615,137	0	0	(672)	0
0130, Defense Health Program	1996/1996	09/30/01	1,892,516,489	411,583,294	4,191,685	465,033,843	1,842,888,317
	1996/1998	09/30/03	213,169,133	0	0	(21,953,296)	235,122,393
	1996/1997	09/30/02	(359)	0	0	(359)	0
	1994/1995	09/30/00	4,324	0	0	4,324	0
Subtotal			2,105,689,587	411,583,294	4,191,685	443,084,512	2,078,010,710
0131, Real Property Maintenance	1994/1994	09/30/99	1,448	0	0	1,448	0
	1993/1993	09/30/98	29,097,214	0	4,500	3,714	29,098,000
Subtotal			29,098,662	0	4,500	5,162	29,098,000

Footnotes are at end of table.

**Appendix B. Appropriation Accounts Excluded From the FY 1996 Statement of
Financial Position for "Other Defense Organizations"**

**Table B-3. Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for
Other Defense Organizations Because of Computer Programming Errors (cont'd)**

<u>Appropriation No. and Title</u>	<u>Appropri- ation FY</u>	<u>Cancel- lation Date</u>	<u>Fund Balance With Treasury¹</u>	<u>Accounts Receivable¹</u>	<u>Advances and Prepayments</u>	<u>Accounts¹ Payable</u>	<u>Unexpended Appropriations</u>
0132, Mt. Pinatubo Claims	1993/1994	09/30/99	10,000,000	0	0	0	10,000,000
0360, Defense Production Act Purchases	1989/1993	09/30/98	6,000,000	0	0	0	6,000,000
0390, Chemical Agents and Munitions Destruction	1993/1993 1993/1995 1993/1994 1992/1992 1992/1994 1992/1993 1991/1993 X ²	09/30/98 09/30/00 09/30/99 09/30/97 09/30/99 09/30/98 09/30/98 indefinite	13,483,339 118,777,709 2,132,756 3,526,021 1,478,546 1,069,784 (460,676) 637,494 140,644,973	0 0 0 0 0 0 0 0 0	0 0 0 0 0 0 0 0 0	842,244 (3,445,285) 1,643,878 (91,398) (685,435) 824,171 (906,710) 425,563 (1,392,972)	12,641,096 122,222,995 488,878 3,617,419 2,163,982 245,613 446,034 211,932 142,037,949
Subtotal							
0827, World University Games	1994/1994	09/30/99	576	0	0	576	0
0828, Defense Reinvestment for Economic Growth	1993/1995	09/30/00	50,000,000	0	0	0	50,000,000
0829, World Cup USA	1994/1994	09/30/99	390,712	0	4,467	128,489	266,690
3875, Budget Clearing Account	Not Applicable	None	(473,905,790)	0	0	(473,905,790)	0

Footnotes are at end of table.

**Appendix B. Appropriation Accounts Excluded From the FY 1996 Statement of
Financial Position for "Other Defense Organizations"**

**Table B-3. Appropriation Accounts Excluded From the FY 1996 Statement of Financial Position for
Other Defense Organizations Because of Computer Programming Errors (cont'd)**

<u>Appropriation No. and Title</u>	<u>Appropri- ation FY</u>	<u>Cancel- lation Date</u>	<u>Fund Balance With Treasury¹</u>	<u>Accounts Receivable¹</u>	<u>Advances and Prepayments</u>	<u>Accounts Payable¹</u>	<u>Unexpended Appropriations</u>
3879, Undistributed and Letter of Credit Differences		none	1,354,204	0	0	1,354,204	0
Total programming errors			\$2,390,451,856	\$411,583,262	\$4,523,041	\$111,740,140	\$2,691,663,677
Less adjustments made by DFAS Indianapolis Center							
0103, Base Closure partial		09/30/95	364,403,152	0	0	17,149,075	344,722,607
0116, Summer Olympics	1996/1997	09/30/02	8,443,843	0	68,858	4,125,162	4,387,539
0130, Defense Health Program	1996/1996 1996/1998	09/30/03	1,892,516,489 213,169,133	411,583,294 0	4,191,685 0	465,033,843 (21,953,296)	1,842,888,317 235,122,393
0131, Real Property Maintenance	1993/1993	09/30/98	29,098,000	0	4,500	4,500	29,098,000
Total adjustments			\$2,507,630,617	\$411,583,294	\$4,265,043	\$464,359,284	2,456,218,856
Total programming errors after adjustments			\$ (117,178,761)	\$(32)	\$257,998	\$(352,619,144)	\$235,444,821

¹All accounts normally have positive balances. Any amounts in parentheses indicate an abnormal (negative) balances.

²Budget authority for the X year appropriation account remains available for obligation for an indefinite period.

Appendix C. Reconciliation Process

Adjustments to the Consolidated Certified Budget Execution Data. Upon receiving the adjusted trial balances from the supporting accounting offices, DFAS Indianapolis Center performs a validity check on the financial information. If errors are found, DFAS Indianapolis Center resolves the problem by itself or with the supporting accounting offices, depending on the nature of the discrepancies. After the review is complete, DFAS Indianapolis Center consolidates the trial balances from "Other Defense Organizations" into a database called Source 97. Source 97 has to be adjusted to the fiscal yearend consolidated certified "Report(s) on Budget Execution" before it can be used to prepare the "Other Defense Organizations" financial statements. No audit trails were maintained for the above summary adjustments. However, DFAS Indianapolis Center stated that the adjustments were needed because the supporting accounting offices did not have reliable accounting and financial information. Also, DFAS Indianapolis Center stated that the financial information contained in the fiscal yearend consolidated certified "Report(s) on Budget Execution" were used instead of the trial balances from "Other Defense Organizations" because the "Other Defense Organizations" are required to certify the accuracy of their "Report(s) on Budget Execution."

Relationship Between the Consolidated Certified "Report(s) on Budget Execution" and the Adjusted Trial Balances. The consolidated certified "Report(s) on Budget Execution" is prepared monthly for all open, canceled, and merged years appropriation accounts by the DFAS Indianapolis Center. The consolidated certified budget execution data are derived from individual certified "Report(s) on Budget Execution" submitted by the accounting offices that support the "Other Defense Organizations." "Report(s) on Budget Execution" are certified for accuracy and completeness and are used to show the status of funds for an appropriation. There is a relationship between specific lines on the consolidated certified "Report(s) on Budget Execution" and specific accounts on the adjusted trial balances for "Other Defense Organizations." The DFAS Indianapolis Center adjusts the trial balance account amounts submitted by the supporting accounting offices for the "Other Defense Organizations" to the fiscal yearend consolidated certified "Report(s) on Budget Execution" based on that relationship. The trial balance data for "Other Defense Organizations" are adjusted to the budget execution data because more than half of the accounting offices supporting the "Other Defense Organizations" did not have complete general ledger accounting systems to produce the individual adjusted trial balances. Table C shows lines on the fiscal yearend consolidated certified "Report(s) on Budget Execution" that relate to general ledger accounts for the adjusted trial balances of "Other Defense Organizations."

Appendix C. Reconciliation Process

Table C. Report Lines from the "Report(s) on Budget Execution" that Crosswalk to General Ledger Accounts in the Adjusted Trial Balance

<u>General Ledger Accounts</u>	<u>Report Lines on the "Report on Budget Execution"</u>
Fund Balance With Treasury	8+9+13
Accounts Receivable	13B1
Advances and Prepayments	13A3
Accounts Payable	13A2
Unearned Revenue	13B2
Unexpended Appropriations*	8+13A1-13B3
Revenue from Reimbursable Activity	3A
Cost of Goods Sold	3A

*Unexpended appropriations include the portion of an entity's appropriations represented by unobligated balances and undelivered orders, two budgetary accounts in the DoD Standard General Ledger.

Appendix D. Report Distribution

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Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
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House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

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